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“Renova: How to grow business out of the tissue category in Portugal”

Channels Analysis

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Contents

Introduction	3
The Channels	3
Channel Structure and Members.....	3
Service Outputs and End-User Segments	4
Channel flows.....	6
Gap analysis	7
Closing the gaps	9
Power Sources and Potential Conflicts	10
Channel Marketing initiatives	12
References	13
Appendix	14

Introduction

‘A marketing channel is a set of interdependent organizations involved in the process of making a product or service available for consumption.’ (Palmatier et al., 2014). Therefore, the focus should always be on satisfying the end-user of such product and service, bearing in mind that several entities are involved and depend on each other to exercise their functions. An effective marketing channel strategy can be a competitive asset, and can lead to increased customer satisfaction, reduced distribution costs, and overall superior financial performance. In this report, an analysis of Renova’s distribution channel will be performed, where channel members and their respective functions will be identified. The plan is to benefit from Renova’s widespread presence in retailing to introduce its brand extension, Renova Men (RM).

The Channels

Modern Retailing (MR) – MR is at the core of Renova’s distribution. Renova is present in all major modern retailers, such as Sonae and Jerónimo Martins (Exhibit 1). MRs can be diversified and include hypermarkets, supermarkets and small-sized supermarkets. Overall, MRs account for approximately 90% of Renova’s sales (Palmeira, 2016), hence the great focus of the company in this channel.

Traditional Retailing (TR) – Despite the high number of TR establishments, they represent solely 10% of Renova’s sales. TRs acquire Renova indirectly through cash-and-carries (C&Cs) like Makro and Recheio.

Channel Structure and Members

The channel structure outlines the type of members present in the channel, and their intensity (Coughlan et al., 2007). RM will outsource its production from hygiene and cosmetics producers. As covered in the main report, there are many possibilities within the outsourcing process, but ideally Renova would be to find a single supplier to manufacture the whole product line. After reaching Renova’s warehouse in Torres Novas, the products will continue downstream using Renova’s existing distribution channel (wholesale and retail intermediaries).

Products will be transported directly to MRs or to retailers' central warehouses, and TRs buy from C&Cs and other wholesalers. Logistic operators (specialized intermediaries) are hired by Renova to fulfil transportation. For TRs, the products can be delivered by the C&Cs or picked up by the stores themselves. Both through traditional and modern retailers, the products will reach the end-users (Exhibit 2).

Service Outputs and End-User Segments

Channel systems perform duties and provide benefits, referred to as Service Outputs, that can reduce search, waiting time, and other costs. 'All else being equal (e.g. price, physical product attributes), end-users prefer a marketing channel that provides more service outputs.' (Palmatier et al., 2014). For the launch of RM, it is important to assess whether the existing marketing channel meets consumers' needs.

- **Bulk Breaking (lot size)**, which refers to the possibility of buying the desired number of units. For RM, products will be delivered to MRs in bulk, and the bulk is broken so the consumer can purchase individual items. In C&Cs, TRs may have the option of buying some products both in bigger lots or as single units. During the sales trip, it could be observed that most of men's grooming products at Makro were sold individually.

- **Spatial Convenience**, which reduces end-users' transportation requirements and search costs. Regarding grocery retailers, opening hours are similar across the country. If hypermarkets usually open around 9:00 and operate until 23:00, supermarkets run from 8:00/9:00 and close around 21:00/22:00. TRs most commonly operate from 8:00/9:00 until 20:00 (Euromonitor, 2016 A). As for physical presence, supermarkets have the largest number of outlets in Portugal (around 1700 supermarkets in 2015, according to data from Euromonitor), whereas hypermarkets amount to 92 outlets, located outside major urban centres, and are increasingly losing their presence over supermarkets. TRs are increasingly threatened by the growing penetration of supermarkets, and their number declined in 2015 (Euromonitor, 2016 A).

- **Waiting or Delivery Time**, as in the time the end-user needs to wait between ordering and receiving the goods. In both MRs and TRs, the products are picked up by consumers at the point of sale (POS), who then pay for them immediately, making waiting time is close to non-existent.

- **Breadth of Variety (BV) and Depth of Assortment (DA)**, which correspond to the different product categories offered and the amount of different brands and models provided. Both variety and assortment vary according to the type of retailer and their sales area. Accordingly, a hypermarket will have greater variety and assortment than a TR.

- **Customer Service**, which facilitates the shopping experience at the point of sale. Consumers should be able to easily identify the products' location or ask for it and have those needs met by the salespeople. Retailers use 'category banners' above the store corridors to identify the categories in each aisle, and manufacturers often use 'brand banners' ('tarjas' in Portuguese) and POS displays to emphasize product location and increase visibility.

- **Information Provision:** Education on product attributes and usage capabilities may be relevant for the new RM line, especially for less familiar products like the beard oil. Education can be provided at the POS (through information on displays or flyers that contain product information, like ingredients or usage instructions) and complemented through the brand's website, but mostly through the packaging itself or through communication activities.

Being present in MR, Renova can achieve higher sales volume. Nevertheless, by taking part in TR, it further complements its intensive distribution. These two channels provide different service outputs, that are valued differently by the end-users that shop at those outlets. They can be segmented according to their Service Outputs demanded (SODs), hence 'they differ not in the products they want to buy, but in how they want to buy.' (Palmatier et al., 2014). The End-user segments identified and the Service Outputs demanded can be found in Exhibits 3 and 4.

Channel flows

Channel functions consist of a set of tasks that are performed in different points of the channel by different channel members, in which each carries a cost. Although channel members can be excluded or substituted in their functions, channel functions themselves can not be eliminated (Palmatier et al., 2014). Given Renova's indirect presence in TRs, they will not be included in the flow analysis (Exhibit 5), that results from interviews with Renova collaborators.

Physical Possession and Ownership (Inventory Holding Costs): The products will be produced by an outsourced supplier, that then sells the products to Renova. The products will be distributed across Renova's existing list of retailers and C&Cs, through third-party logistic partners. Physical possession and ownership are held firstly by the supplier, then Renova at its warehouse, MRs and finally the end-user, after purchase. Logistic operators also hold physical possession, but do not store the products. Nevertheless, deliveries made to central warehouses are much less costly than the ones made store-to-store.

Promotion: For all MRs, promotions are negotiated between Renova's key account managers and each company/retailers' commercial division. These days the negotiation process is centralised, meaning that promotional activities are discussed for a selected number of stores (or all stores) within a retailer. Promotional activities may include in-store promotions, like POS displays and price-offs. Retailers also have the autonomy to do their own in-store promotions with Renova products, not needing consent from the company.

Negotiation: Negotiation is perhaps the most relevant flow, since it is through negotiation that the conditions of the other flows are defined. Contracts are held with all channel members, from logistic partners to retailers. The periods of renewal and each contract's terms and conditions are extremely variable, but for the most part they are negotiated every year. With respect to retailers, usually a general plan of activities is outlined with the retailers' commercial divisions, including the 'cardex' and overall budget. The budget is then managed throughout the year

(from Renova's experience, sometimes monthly or weekly) as a way of optimizing said budget.

In case there is no pre-determined budget with a retailer, Renova pays directly for each activity.

Financing: Payments periods can greatly vary from member to member. There are retailers than pay in either 30, 60 or 90 days. End-users also take part in the flow, as they pay instantly for their purchase, injecting cash into the channel before using the goods.

Risking: Due to the nature of the products of RM (hygiene and cosmetics), there is an expiry date for consuming the products, after which the retailer cannot sell the items. Nevertheless, this risk is minor because the expiry date of around two years, which can be considered large. Any spoilage or damage risk is bore by the member that possesses the product at the time. Renova also bears the risk of unmet delivery times, and in that case retailers can enforce a penalty, even if other channel members failed to perform their functions.

Ordering and Payment: Retailers use EDI (Electronic Data Interchange) to exchange business data and keep track of stock and order accordingly to what is being sold, reducing inventory costs. For the tissue business, some retailers have pre-defined delivery dates, and others manage orders and deliveries on a daily or weekly basis.

Gap analysis

Comparing the service outputs demanded by targeted end-users with the services outputs supplied by the existing channels, it is possible to identify possible channel gaps (Palmatier et al., 2014). There are two sources of gaps: environmental bounds and managerial bounds.

Environmental bounds

Environmental bounds are associated to the conditions of the marketplace that may prevent the companies directly involved in the channel of offering the appropriate level of SODs or constraints that impose very high costs on channel members (Palmatier et al., 2014). Supermarkets continue to register higher sales and have gained penetration over hypermarkets. This trend is exacerbated by the changing shopping habits of consumers, that prefer proximity-based retailers as supermarkets. Besides, price promotions remained a prominent demand factor

over 2015 (Euromonitor, 2016 A). Plus, TRs declined in number in 2015, due to their incapacity to compete against larger retail chains (Euromonitor, 2016 A). Despite being a small source of Renova's sales, these may decline due to the closing of traditional establishments. Some TRs have resorted to franchising concepts presented by JM and Sonae, that give small retailers access to negotiation platforms that encourage small grocers to stock up through JM and Sonae. This may influence the performance of C&Cs (Euromonitor, 2016 A). If on one hand, there is a greater bond between small grocers and these suppliers (Sonae and Recheio); they are incentivised to carry private labels in all categories, affecting the presence of other brands.

Managerial bounds

Managerial bounds arise from within the channel structure or from the orientation of specific channel members (Palmatier et al., 2014). They emanate from the rules within a company, most commonly the manufacturer. One of the main managerial bounds would be Renova's limited experience in the cosmetics industry, especially within male products. Despite Renova's previous incursion in beauty care with the discontinued brand Dosha, that experience took place close to fifteen years ago, and modern distribution (MD) channels have undergone many changes (Exhibit 6). Additionally, the company does not have the financial power to match the advertisement budget of large MNC's, which may undermine the exposure of the new concept, and brings more pressure towards in-store activities. Another bound is related to the outsourcing of the new brand line. The more the intermediaries in the upstream side of the channel, the more complex the management of all the relationships, and the greater the cost for Renova.

Demand-Side Gaps

A table comprising the Demand-Side gaps can be found in Exhibit 7. Some potential gaps were identified. **Spatial Convenience**, given that the relatively low number of hypermarkets may compromise the access for consumers that value a 'one-stop shop' experience. Plus, the decreasing number of TRs may affect consumers that value physical proximity to retailers.

Breadth of Variety and Depth of Assortment, considering that these outputs are very dependent on the physical size of stores, and there are men that value having great variety to choose from, both in products and brands. **Information Provision**, given that RM products are new to the market, men may need information about the products and many times a high level of information provision may be hard to accomplish at a modern retailer.

Supply-Side Gaps

Renova's limited experience in men's grooming (MG) may influence the way it can persuade retailers during negotiations for RM, not being able to achieve the ideal shelf placement that may condition the portraying the brand's positioning. One major challenge will be to persuade retailers on adding the line to their store portfolio, therefore getting the products accepted into distribution. Overall, there is the risk of hurting the main brand Renova if RM is not successful, which could damage the good trade relations Renova has. Moreover, promotions are now a fundamental part on the Portuguese grocery retail landscape, which adds to the cost of promotion and negotiation as channel functions. Also, if products are supplied from distant geographies, there are legal aspects like insurance and clearance that further increase the costs of carrying inventory.

Closing the gaps

To close gaps on the demand side, the abovementioned service outputs that experience a gap need to be expanded. Negotiation is key to achieve the best conditions for Renova in retail. It's through negotiation that the right shelf space and positioning of RM products is achieved. RM products should be placed among the MG products in the male section of the stores. Most retailers organise their product offering by type (Faria, 2016), so it makes sense for RM products to be placed next to their direct competitors. Moreover, the 'cardex' dictates the BV and DA of each store. Promotional activities like POS displays can be a way of positioning the entire line together and present the RM brand with full visibility. It's also through displays or brand banners that information can be provided about the products, minimising the information

provision gap. Renova can also switch roles and promote RM directly to TRs (instead of relying on C&Cs), creating demand from that channel and assuring distribution in that channel. Overall, a strong effort on trade promotions is needed to increase availability to consumers and fast listing in stores, to prevent supply side gaps (few stores at high cost). Finally, a trade-off between speed of delivery and cost-efficiency needs to be managed to ensure the most efficient delivery and minimise costs.

Power Sources and Potential Conflicts

A power source represents the influence that a channel member has on another member, and is what allows members to solve conflicts in the channel, defining the relationships between them (Coughlan et al., 2007). All power sources are described in Exhibit 8. Renova can explore its referent power of being a longstanding market leader in the tissue category to benefit from its reputation and credibility and have the brand extension perceived as attractive. According to Paulo Faria, a recent study performed by Kantar shows that a retailer grows when Renova is within its assortment, further validating its presence in retail channels. Despite being new in MG, Renova can also exert expert power by advising other channel members on how to carry, store, price and display the products. Nevertheless, it may be wrong to assume that all expertise comes from the manufacturers, given that retailers are closer to the end-users and may have a superior view on the needs of the buyers (Coughlan et al., 2007). It is relevant to point out the increasing power of retailers over manufacturers, in part stemming from the degree of dependence they have on each other. Renova is highly dependent on MD, as it represents 90% of their sales volume, and this dependence increases with the growing concentration of retailers. In turn, Renova accounts for a small share of the retailers' overall sales. Nevertheless, through a net dependence perspective, a balance of power can be achieved if one bears in mind that Renova can also influence retailers' behaviour. After all, Renova is a market leader and household name with very high brand awareness in Portugal, hence nearly every consumer expects to find it at the POS. The absence of the brand in the stores would damage the retailers'

reputation, so that fact counterbalances the relationship. Still, communication is needed so that latent power and its potential for influence can yield real changes on behaviour (Coughlan et al., 2007). Influence strategies based on information exchange, requests and recommendations appear to be the most effective options for communication, due to its non-obtrusive character. For that, Renova must explore the use of reward power to base those strategies.

Regarding conflicts within the channel, these can be described as a state (and many times process) in which one channel member opposes the behaviour of its counterpart (Palmatier et al., 2014). For RM, conflicts within the channel may stem mainly from divergent goals of Renova and the retailers, since both sides want to maximize their economic profit while serving their desired targets and managing product offering. For instance, retailers may perceive list prices as too high to generate profit and are interested in providing wide brand assortment; while Renova may feel exploited by retailers' demands and sales conditions, and wishes for retailers to carry RM's full line in every store. Moreover, differing perceptions of reality can also give rise to issues, namely if retailers do not comprehend the attributes of the RM line. If on one hand, conflict can sometimes be functional and even desirable, as it stimulates improved performance on the channel; on the other hand, conflicts can reduce performance, if intense. Latent conflicts are constant in marketing channels due to colliding goals, and perceived conflicts often arise but are dealt with straightforwardly. Nevertheless, when emotions like frustration take place, issues can be described as affective. If not managed accordingly, such type of conflict can evolve into manifest conflict and channel performance is threatened (Palmatier et al., 2014). For RM, conflicts can be expected in the negotiation process since each party wants to achieve individual goals (in terms of margins, 'cardex', product reach). Such conflicts can be carried into the negotiation of promotional activities, or translated into a major conflict if retailers refuse to list the new RM brand extension. In such case, economic incentives (reward power) are a way of resolving conflicts and enhancing relationships and cooperation.

Channel Marketing initiatives

Channel marketing initiatives can be used as strategies in order to manage conflicts with distributors, often through economic incentives (Coughlan et al., 2007). Regarding conditions of sales, as depicted in the main report, listing fees for the introduction of the new products are considered as trade trial promotions. These work as compensation for discontinuing other products to accommodate the new ones, and as an incentive to display the added offerings. Trade advertising was also regarded, including promotional allowances for the inclusion of RM products in retail magazines and retailer leaflets, as well as trade ads that emphasize acceptance details like margins and expected turnover (Rossiter & Percy, 1997). Moreover, merchandising allowances were considered for POS displays and ‘topos’ to increase visibility (repeat-purchase promotions). Within ‘topos’, after the first year, and once the RM line has a reasonable amount of products in the market, permanent ‘topos’ can be a good way of showcasing the entire brand portfolio together for longer periods of time, while reducing price comparison from consumers. Moreover, in-store merchandising (in the form of ‘advertising banners’ and ‘shelf dispensers’) contribute to enhance product placement and provide information about the products. Some of these initiatives can be part of cooperative advertising allowances, in which Renova participates in the retailers’ marketing communication.

Consumer price-offs were also considered, as price promotions remain a major demand factor for Portuguese consumers (Euromonitor, 2016 A). In this case, the loss in margin can be fully undertaken by Renova, or can be divided between Renova and the retailers in which the price promotion is taking place. Due to the nature of Renova Men, which is a new brand entering an established category, price-offs should not be conceded at launch, given the risk of only capturing clients at promotional prices, that then lose interest once the products are for sale at full price. Instead, price reductions should be introduced only after the launch period, so that consumers can get to know the brand and equate its normal price with the brand’s quality or value (Rossiter & Percy, 1997).

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Appendix

Exhibit 1 - Number of Points of Sale that Renova is present at in Modern Distribution, in Portugal.

	Retailers	Number of Stores
Cash-and-Carry	Makro	10
	Recheio	36
Hypermarket	Pingo Doce	9
	E.Leclerc	20
	Jumbo	21
	Continente	38
Supermarket	Pingo Doce	400
	Lidl	245
	Dia/Minipreço	576
	Pão de Açúcar	11
	Modelo	135
	Continente Bom Dia	85
	El Corte Inglés	5
	Intermarche	170

Exhibit 2 – Channel Structure



Exhibit 3 – End-user segments identified and levels of SODs.

End-users can be differentiated based on how they buy and how they value service outputs provided. The segments identified fit into two main categories: how frequently they shop (and consequent value of convenience), and how demanding they are on variety. As mentioned in the main report (first qualitative research and segmentation parts), there are male consumers that use a small range of products and are not so open to varying brands (therefore not being so interested in variety as long as they find the brands they need), and men that value using a wider range of products in their grooming routine, therefore valuing a wider assortment of products.

Segments	Description	Major channel for the segment
Monthly haulers	Shoppers that do the largest part of their monthly grocery purchases in one time, therefore valuing having access to great variety and assortment at one place. Spatial convenience is not as high, since transportation costs are kept to a minimum.	Supermarkets and Hypermarkets
Frequent shoppers	Most recent trend, in which shoppers go more frequently to supermarkets due to their busy schedules (Euromonitor, 2016 A). Spatial convenience is key, since time is highly valued, so there must be stores close by.	Supermarkets and Small stores
Variety seekers	Shoppers that value having high variety of products and brands, since they are more in tune with their grooming routines. These are more conscious shoppers that like to compare products and prices, not being as loyal to any brand, instead searching for the best opportunities.	Modern Retailers
Simple and Easy	Shoppers that know what they like and usually buy the same products. They are not particularly demanding for any output, as long as they can easily find the small range of products they need.	Supermarkets and Small stores

Exhibit 4 – Service Outputs Demanded per End-User segment.

Segment	Bulk Breaking	Spatial Convenience	Waiting or Delivery Time	Breadth of Variety and Depth of Assortment	Customer Service	Information Provision	Major channel for the segment
Monthly haulers	High	Medium	High	High	Low	Medium/High	Supermarkets and Hypermarkets
Frequent shoppers	High	High	High	Medium/High	Low	Medium/High	Supermarkets and Small stores
Variety seekers	High	High	High	High	Low	Medium/High	Modern Retailers
Simple's the Best	High	High	High	Low	Low	Low	Supermarkets and Small stores

Exhibit 5 – Channel flows

Function	Supplier	Logistics Operators	Renova	Modern Retailers	End-User
Physical Possession	X	X	X	X	X
Ownership	X		X	X	X
Promotion			X	X	
Negotiation	X	X	X	X	
Financing			X	X	X
Risking		X	X	X	
Ordering	X		X	X	
Payment	X	X	X	X	X

Exhibit 6 – Notes on Negotiation with Retailers

Through the interview with Paulo Faria, from the Department of Merchandising of Renova, some interesting takeaways were gathered.

If back in the day negotiations were done store by store, nowadays the process is done at the modern retailers' commercial divisions, so the negotiation efforts are centralised. With that, the lists of products to be present in the retailers are negotiated for all their stores in general (e.g. for the most part, what is negotiated for Pingo Doce will be enforced in all the stores nationwide). The loss of store managers' independence leads to a loss of know-how that could result in positive synergies for the performance of the products in store. For instance, a store manager would have a greater sense of the products that work in that specific establishment so negotiations could be tailored to the stores' needs. With centralised decisions, retailers may not be reaping off those benefits. And besides the fact that retailers are very strong nowadays, there is another potential issue: a conflict of interest between a retailer's CD and the physical stores of that retailer. The negotiations are made with the CD, so when stepping into a store it is expected to find the agreed promotions, like a 'topo', but that may not be the case. This can happen because the store manager decides to not enforce it. This creates a conflict between the CD and the stores, but often no solution comes out of it. Since the stores are evaluated in terms

of performance, and a store manager has the know-how of what works and what doesn't, if a store is already performing well despite the promotions, often the store managers prefer to do nothing and rely on the good performance they already have. Sometimes the store managers end up being more powerful than the CD, and the CD does not have the means to force them to comply.

Exhibit 7 – Demand-Side Gaps

Segment	Bulk Breaking	Spatial Convenience	Waiting or Delivery Time	Breadth of Variety and Depth of Assortment	Customer Service	Information Provision	Major channel for the segment
Monthly haulers	SOS=SOD	SOS<SOD	SOS=SOD	SOS=SOD	SOS=SOD	SOS<SOD	Supermarkets and Hypermarkets
Frequent shoppers	SOS=SOD	SOS<SOD	SOS=SOD	SOS<SOD	SOS=SOD	SOS<SOD	Supermarkets and Small stores
Variety seekers	SOS=SOD	SOS=SOD	SOS=SOD	SOS<SOD	SOS=SOD	SOS<SOD	Modern Retailers
Simple's the Best	SOS=SOD	SOS=SOD	SOS=SOD	SOS=SOD	SOS=SOD	SOS=SOS	Supermarkets and Small stores

SOS – Service Outputs supplied

SOD – Service Output demanded

Exhibit 8 – Power Sources

Power Sources	Description
Coercive Power	Since Renova and other members are bound in form of contracts, all parties are able to use coercive power when contractual terms are not respected or fulfilled with delay. Another point would be the increasing bargaining power of retailers over manufacturers, especially for the launch of new products, that make use of their dominant position to enforce their sales conditions and promotional activities, namely listing fees for the introduction of new products and shelf space attribution.
Legitimate Power	Since Renova and its retailers are bound by contracts, both the manufacturer and the intermediaries have legal power and rights.
Reward Power	There is reward power exerted in the channel in the form of investment in trade promotions, representing a rather relevant source of power for Renova.
Referent Power	Renova exhibits referent power by being a longstanding market leader in the tissue category. Despite entering a new category with RM, Renova can benefit from its reputation and credibility to have the brand extension perceived as attractive. Plus, according to Paulo Faria, a recent study performed by Kantar shows that a retailer grows when Renova is within its assortment, which further validates the presence of Renova in retail channels.
Expert Power	Despite being new to the category of MG, Renova can exert expert power by advising other channel members on how to carry, store, price and display the products, since it is the member with the best knowledge of the new brand. Nevertheless, it may be wrong to assume that all expertise comes from the manufacturers, given that retailers (by being downstream members of the channel) are closer to the end-users and may end up having a superior view on the needs of the buyers (Coughlan et al., 2014)